IMPACT OF PRIVATE NON-OIL SECTOR CONTRIBUTION TO GDP ADHERING TO SAUDI VISION 2030

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ABSTRACT:

The paper aims to examine the impact of the contribution of private non-oil sector to Gross Domestic Product in Saudi Arabia over the past 48 years (1970-2018) and predicted an increase of contribution from 40% to 65% by 2030 to achieve the vision of the Kingdom, Vision 2030.

A time series data is used for the period of over past 48 years. In analyzing the data, variables that are needed for analysis and to make estimates about the future non-oil sector contribution to GDP, many problems were encountered with the basic real GDP and private sector non-oil revenue data that are typically used. The most widely-used measure of non-oil private sector activity that is available, the Non-Oil Private Institutional Sector GDP, does not include the Gross Value Added of all of the private activities, omitting over SAR 80 billion of real activity (in 2010 prices). A new series was constructed, consisting of all the non-oil private activities, including the recently corporatized (privatized companies). Data on the variables is obtained from the Annual Statistics of the Saudi Arabian Monetary Agency. The data is further analyzed using SPSS version 25. Variables such as Non-Oil private sector, Government Sector, Import Duties, Gross domestic product (per capita) are measured at constant 2010 US$.

The data is analyzed by using SPSS version 25. Stepwise Multiple Regression Method was used. The results proved that there is a strong,

Positive and direct impact of the non-oil private sector of the Kingdom of Saudi Arabia to the GDP. The results adheres to Saudi vision 2030 and explains that any increase in the volume of private sector revenues leads to a significant increase in the gross domestic product, and this shows the extent of the contribution of this sector to the components of the gross domestic product

Keywords: GDP, private non-oil sector, corporatized, SPSS, Adhere, Vision 2030

Introduction

Saudi Arabia is a large country with comparatively smaller population. The Kingdom has been dependent on oil for its revenues for a very long time. This leads to procyclical government expenditure, therefore, motivates researchers to study the impact of private sector on economic growth, especially in Saudi Arabia.

Lately, many gulf countries including Saudi Arabia, face a realistic examination of how to move forward, not just on oil income but to sought to strengthen the role of the private sector. As private sector or non-oil sector is the main driver of the economy in any country, especially in the Market Economy. Saudi Arabia has a role of the world's largest exporter of crude oil. As a member of the G-20 Saudi Arabia is not matched by the attention given to the impact of the government's non-oil revenue receipts on the overall GDP growth.

Since last few decades, many variables began to be imposed on global relations, like trade liberalization, the use of market mechanisms, the division of international labor and methods of organizing production, the establishment of international organizations, regional or continental blocs and the global economic landscape.

In order to cope with these developments in the global economy, Saudi Arabia has taken the role of the private sector in all economic activities to enhance its participation in economic and social development and reduce the burden on the public sector.

Economic development in the Kingdom began in 1970 and was an important stage for economic and social construction. The most important dimensions of these plans were the policy of free economy and the opportunity of the private sector to participate in development. The Sixth Development Plan to take practical steps to activate the general trend towards privatization by issuing the Cabinet Decision No. 60 of 1/4/1418 to continue increasing the share of the private sector and expanding its contribution to the national economy through the best available means in the Seventh Development Plan (2000-2004) , The Government placed full responsibility on the private sector in terms of privatization. The ninth plan covering the period (31/1432/1435/1436) reinforced this role. Economic and social development and expansion in the fields of private investment and areas of partnership between the public and private sectors, achieved the Kingdom.

The studies that have been done have focused on oil price shocks, rather than government non-oil revenues, and have included Saudi Arabia in a group of countries.

In 2015, Saudi Arabia's GDP was valued at 2517.5 billion Saudi Riyals (SR) at 2010 constant prices ($1=SR3.75).

Of this, the oil sector share was about 39.4 per cent,4 the lowest oil sector share of GDP since 2009. In December of 2015, The Custodian of the two Holy Mosques, King Salman bin Abdulaziz, announced economic reforms to diversify sources of income and to reduce the high dependence on oil in Saudi Arabia. Thus, conducting a comparative analysis of economic growth in the non-oil sector that has been impacted by financial sector development is crucial to enhance the kingdom's economic growth, making this study extremely relevant and significant. It is vital for policymakers to identify what type of economic growth, has been the most directly impacted by the non-oil private sector to determine what policy changes can be made to enhance future economic growth in Saudi Arabia.

Saudi Vision 2030, the long-term development plan, largely focuses its economic agenda on developing promising industries that are separated from state spending and the fluctuation commodities prices. A key plank of the strategy is increasing private sector participation. According to the mid-term National Transformation Program (NTP),

 by 2020 the civil service workforce is expected to be reduced by 20% and the public sector wage bill by 5%; meanwhile, the private sector is being tasked with creating 450,000 new jobs for Saudis, with the unemployment rate for locals estimated to fall from 12.3% in the fourth quarter of 2016 to 9%. In accordance with Vision 2030, the private sector's contribution to GDP is anticipated to increase from 40% to 65%, with small and medium-sized enterprises (SMEs) expected to account for 35% of national output, up from the current 20%.

"Vision 2030 opens up good opportunities to the private sector," as stated by Mohammed Yahfoufi, general manager of Del Monte, a US-based food production and distribution company. Also, he added "As more companies align themselves with the strategic vision, investors from outside are finding more places where their services and expertise are needed."

This paper aims to analyze the extent of the private sector's contribution to the Saudi GDP and examine the prediction of Saudi vision 2030 about the increase of the private sector's contribution to GDP from 40% to 65%. It focuses on the entire 40 year period to determine both the short- and long-run relationship between non-oil revenue and real economic growth, uses an expanded measure of real GDP that includes the total of all of the Kingdom's non-oil private activities, including the recently corporatized/privatized enterprises. An SPSS model is used. The analysis is carried out using annual time series data from Saudi Arabia from 1970 to 2018. Specifically, this study sought to determine whether these indicators, in conjunction or independently, affect Saudi Arabian economic growth due to growing contribution of non-oil sector private sector. This paper will add to the current literature by providing updated data along with a wide array of explanatory variables that have yet to be analyzed collectively. The paper is structured as follows. Section 2 discusses the most important previous papers on growing contribution of non-oil private sector and economic growth. Section 3 describes the model under the assumption that the data perfectly match the ideal theoretical and empirical characteristics for the model. Section 4 discusses how closely the data obtained matches the theoretical "ideal" for the variables and the identified time period, sample, and type of data. Section 5 discusses and interprets the results. Section 6 outlines the conclusion and policy implications.

Literature Review

Regarding the impact of non-oil revenue on the Saudi Arabian economy, there are only a few studies. Mehera and Oskoui (2007), for example, confirm the essential role of non-oil revenues in influencing economic activity and government expenditure in several oil exporting countries including Saudi Arabia. Another study by Meharara (2009) also emphasizes the essential role of oil and non- oil revenues on Efforts to develop the private sector

Chambers of Commerce have contributed to strengthening the role of the private sector in the Saudi economy through major reforms that serve investors. These reforms are as follows:

The Chamber of Commerce launched 300 initiatives aimed at improving the Kingdom's classification of international indices, attracting national and foreign investments and improving the contribution of the private sector to GDP.

- The TEC Facilitation Committee facilitates the establishment of companies through various measures, such as allowing the payment of fees electronically and eliminating the need for prior authorization.

- Creating an integrated electronic environment to enhance transparency when it comes to imports, exports and electronic communication between government agencies. The Authority has played a role in reducing the number of import and export documents from only 12 to 2 and from nine to two, respectively.

- Develop the role of education in the preparation of the next generation to enter the business. This is through the development of curricula at different levels of education, especially mathematics and science curricula according to the methodology of science, technology, engineering and mathematics.

- The Small Projects Authority has allocated 12 billion riyals ($ 3.2 billion) to fund four initiatives. This helped a bold 2.4 billion Saudi Riyal investment initiative to stimulate capital financing for SMEs and entrepreneurs in partnership with investment funds. It also provided SR 7 billion for the Government Fee Reimbursement Initiative, launched in collaboration with the Local Content and Private Sector Development (Namaa) Unit, to help organizations achieve growth in the first few years after its establishment.

- SR 1.6 billion was allocated to the Indirect Lending Initiative, which contributes to raising lending rates and improving the ability of SMEs to access finance and contribute to GDP. 800 million riyals have been allocated to support the sponsorship program. "Kafala, with the support of the Ministry of Finance,

has been created to help small and medium-sized companies in the Kingdom obtain loans from banks that will provide them various oil producing countries, including Saudi Arabia.

Industrialization in the Kingdom of Saudi Arabia has witnessed a steady development in which remarkable achievements have been achieved. This is due to the importance of the industrial sector and the support it receives from the Government for its role in achieving the country's strategic and economic objectives. The Government's efforts to support industrial development covered many key areas, including the implementation of the required infrastructure, the construction of Jubail and Yanbu Industrial City as well as other industrial cities in various parts of the Kingdom, the establishment of the Saudi Industrial Development Fund (SIDF) and the provision of other industrial incentives. The Kingdom recently launched the National Industrial Development and Logistics Program (NIDLP), one of the most important programs of the 2030 Kingdom Vision in the Kingdom of Saudi Arabia, which aims to help the country join the ranks of the leading industrial countries. The response and cooperation of the private sector with government plans and efforts has an effective impact on the achievements of industrial development. Here are some of the indicators of industrial progress in Saudi Arabia over the past years.

Indicators published by the General Authority for Statistics (GaStat) show that the contribution of many key industrial sectors to GDP grew from 2016 to 2017. At current prices, manufacturing, which includes petroleum refining and petrochemicals, increased by 5.2% overall, and the refining component of output increased by 21.3% off the back of a 3.8% increase in 2015-16.

Excluding petroleum refining, manufacturing output grew by 0.9% in 2017; the construction sector was down by 3.3%; wholesale, retail, restaurants and hotels shrank by 0.5%; and mining and quarrying – excluding oil and gas – grew by 18%. In 2017 manufacturing contributed 12.8% to overall GDP, 9.7% if petroleum refining is not included; the wholesale, retail, restaurants and hotels sector contributed 10.7%; construction accounted for 6%; and mining and quarrying, without oil and gas, added 0.45%.

At the sectoral level the economy was clearly affected by declining oil prices. In 2012 the oil and non-oil sectors contributed an almost equal share of GDP, comprising 49.9% and 49.3%, respectively. In the non-oil sector,

the private and public components accounted for respective shares of 34.5% and 15% of GDP. By 2017 the oil sector made up 27.5% of GDP, with non-oil's share constituting almost three-quarters, or 71.4%. Within the non-oil component, 67.4% came from private sector sources, with 32.5% coming from public sector contributions.

In nominal terms, the oil sector contributed SR1236bn ($329bn) against the government sector's SR595.5bn ($158bn) in 2017. From 2013 to 2017 private sector output increased by 17.6%, from SR1050bn ($279bn) to SR1236bn ($329bn). Although the private sector's share of GDP rose to 48.2% by 2017 – making significant progress towards the 60% goal set out in Vision 2030 – its change in relative importance was also indicative of the decline in output value in the petrochemicals sector. Therefore, private sector's relative contribution would be likely to shrink should oil prices rise.

"Looking forward, a higher oil price would certainly help the local business community to thrive again," Talal Idriss, CEO of Bahra Advanced Cables Manufacturing Company, told OBG.

Data and Methodology

The research model for this study conducted in a time series framework spanning from 1970 to 2018. Data on the variables obtained

from the Annual Statistics of the Saudi Arabian Monetary Agency. The variables used in this research are Oil Sector, Private Sector, Government Sector, Import Duties , GDP)Gross domestic product (per capita) measure at constant 2010 US$, The data is analyzed by using SPSS version 25. Stepwise Multiple Regression Method، Where the variables are entered gradually because the variables are related, and through this method, the variables that have no statistical significance will be transferred with the dependent variable, to know the effect of the private sector on the gross national product in the Kingdom of Saudi Arabia during the study period, s preferred and expected to give realistic and efficient estimates, The general Regression model can be written as :

$$GDP_t = \beta_0 + \beta_1\ X_{1t} + \beta_2\ X_{2t} + \beta_3\ X_{3t} + \beta_4\ X_{4t} + \epsilon_t$$

Where $GDPt$ is Gross Domestic Product at time t , the independent variables (Xi) used in this model are: X_{1t} is Import Duties at time t, X_{2t} is Government Sector at time t, X_{3t} is Private Sector ,and X_{4t} is Oil Sector at time , $\in_t$ is the error term, β_1 , β_2 , β_3 and β_4 are Coefficients of independent variables

Results and Discussion:

In the estimated coefficients of equation all variables entered in In an equation of GDP because Stepwise Criteria: Probability-of-F-to-enter <= .050, Probability-of-F-to-remove >= .100 Table (1) show the Correlations between the , Table (1) show that Between the four independent variables and the GDP, there is a strong positive correlation with statistical significance between each independent variable and the dependent variable.

Table (1) Correlations

Independent variables	Gross Domestic Product	Sig
Import Duties	.936	.000
Government Sector	.959	.000
Private Sector"	.977	.000
Oil Sector"	.942	.000

Table (2)

Model	R Square	Sig.
1	.954	.000ᶜ
2	.999	.000ᶜ
3	1.000	.000ᶜ
4	1.000	.000ᶜ

a. Predictors: (Constant), Private Sector"

b. Predictors: (Constant), Private Sector", Oil Sector"

c. Predictors: (Constant), Private Sector", Oil Sector", Government Sector

d. Predictors: (Constant), Private Sector", Oil Sector", Government Sector

, Import Duties

e. Dependent Variable: GROSS DOMESTIC PRODUCT"

The R Square is 1.00, which means that the private sector variables explain 100% of the variance of the independent variable (Gross Domestic Product (GDP)

Table (3) Coefficients [a]

Variables	Coefficients	Std. Error	t-statistic	Prob
(Constant)	266.260	177.166	1.503	.140
Private Sector"	1.001	.003	354.120	.000
Oil Sector"	1.000	.001	1598.363	.000
Government Sector	1.001	.006	161.797	.000
Import Duties	.932	.054	17.300	.000

Dependent Variable: GROSS DOMESTIC PRODUCT"

Table (3) shows that the regression model coefficients, which help in obtaining the linear regression between the variables, table data indicate that all variables are statistically significant, as the Sig = 0.00

Table (4) Private Sector"

Varibles	R Square	Coefficients	Std. Error	t-statistic	Prob
(Constant)		67753.935	39296.986	1.724	.091
Private Sector"	.954	2.328	.075	31.240	.000

Dependent Variable: GROSS DOMESTIC PRODUCT"

The table (4) illustrates the relationship of the private sector to GDP (through the use of a method Stepwise Mulipte Regression Method), and it is clear that the private sector explains 95% of the variance of GDP

Discussion (1)

The results proved that there is a strong direct relationship between the private sector of the Kingdom of Saudi Arabia and the gross domestic product, and the results explain that any increase in the volume of private sector revenues leads to a significant increase in the gross domestic product, and this shows the extent of the contribution of this sector to the components of the gross domestic product

Forecasting:

To predict the private sector's evolution to increase its contribution to the gross domestic product in 2030 we use Forecasting – Time Series Expert Modeler , By using variable of time (61 years start from 1977 t0 2030) and variable of private sector

Table (5) Model Fit											
			Minimum	Maximum	Percentile						
Fit Statistic	Mean	SE			5	10	25	50	75	90	95
Stationary R-squared	-.002	.	-.002	-.002	-.002	-.002	-.002	-.002	-.002	-.002	-.002
R-squared	.998	.	.998	.998	.998	.998	.998	.998	.998	.998	.998
RMSE	16763.746	.	16763.746	16763.746	16763.746	16763.746	16763.746	16763.746	16763.746	16763.746	16763.746
MAPE	3.978	.	3.978	3.978	3.978	3.978	3.978	3.978	3.978	3.978	3.978
MaxAPE	30.637	.	30.637	30.637	30.637	30.637	30.637	30.637	30.637	30.637	30.637
MAE	10023.472	.	10023.472	10023.472	10023.472	10023.472	10023.472	10023.472	10023.472	10023.472	10023.472

| MaxAE | 51999.626 | . | 51999.626 | 51999.626 | 51999.626 | 51999.626 | 51999.626 | 51999.626 | 51999.626 | 51999.626 | 51999.626 |
| Normalized BIC | 19.533 | . | 19.533 | 19.533 | 19.533 | 19.533 | 19.533 | 19.533 | 19.533 | 19.533 | 19.533 |

Table 5 show the Model Fit , in this Model   R-squared = 0.998 This means that the model represents data very well

Table (6) Model Statistics

| Model | Number of Predictors | Model Fit statistics | Ljung-Box Q (18) | | | Number of Outliers |
		Stationary R-squared	Statistics	DF	Sig.	
Private Sector"-Model_1	0	-.002	18.466	17	.360	0

Table (6) show the significance value of Ljung-Box Statistics 1s 0.360 > 0.05 Indicates that the residual errors is random

Graph (1)
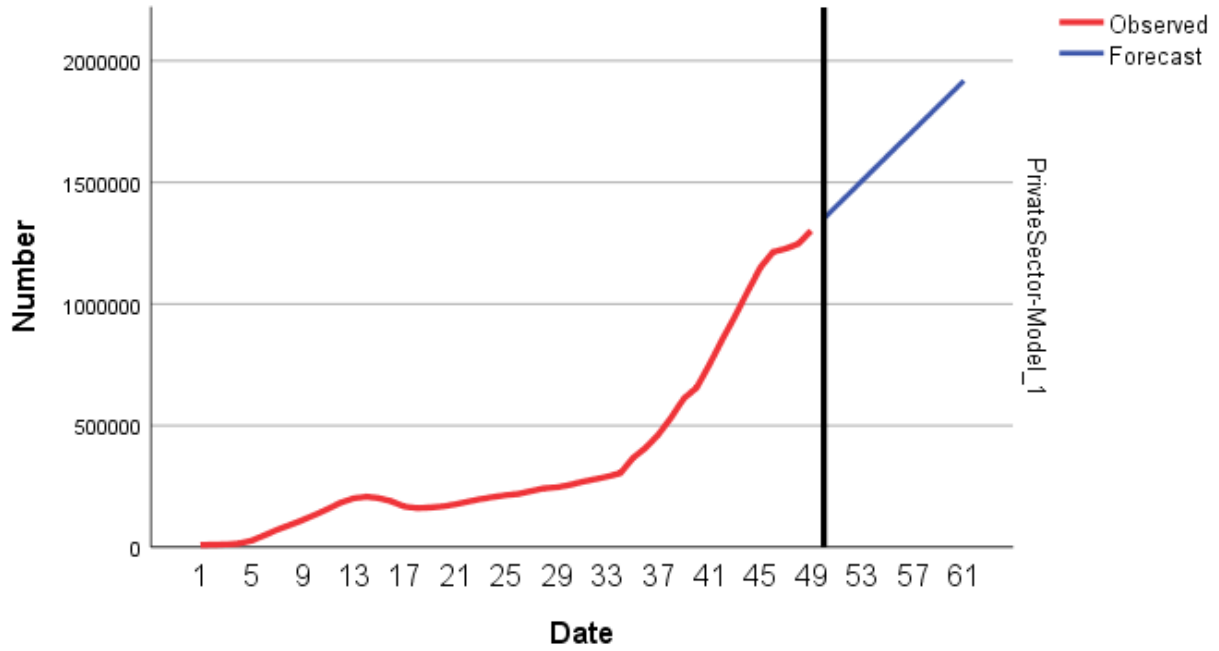
Graph (1) shows a prediction for the increase in the private sector in 2030

Table (7)

Years	
2019	1385949
2020	1477233
2021	1576918
2022	1683822
2023	1797131
2024	1916248
2025	2040718
2026	2170177
2027	2304325

2028	2442912
2029	2585724
2030	2732572

Table (7) Summary of Statistics: Contains the maximum predicted values for the private sector in 2030.

Discussion (2)

The results of the prediction have proven that the private sector will increase by 97% in the year 2030 than it is in 2019, and this confirms the hypothesis of achieving one of the main goals of the Kingdom's Vision 2030 (set in 2015) is to increase the contribution of the private sector from 40% to 65% of GDP . As the result of the forecast proved that the increase in the contribution of the gross domestic product will be greater than 60% in 2030 compared to 2015.

Conclusion and Policy Implications

The above results would indicate that there exists a strong relationship, both short- and long-run, between government non-oil revenue receipts and the overall GDP growth is sticking fast (adhering) to Saudi vision 2030.

 Of course, the major channel of this relationship is via government spending of the oil wealth in a prudent and effective fashion. The evidence of this strong relationship and the development of the non-oil private sector is testimony to the fact that this was money well-spent.

However, the government's main role will be changing, in line with the Vision 2030 initiatives.

Rather than being the distributor of oil largesse, the government's role will be that of investing in the infrastructure that is critical to private sector development, setting the rules and regulations that will promote a strong and vibrant private sector, overseeing the conversion of oil wealth into financial investments whose monetary return will replace oil revenues, and providing those vital government services to its citizens in an efficient and effective manner.

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